



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/26/99	Bill No:	SCA 8
Tax:	Property	Author:	Johannessen
Board Position:	Support	Related Bills:	ACA 43 (1998) AB 2060 (1998)

BILL SUMMARY:

This constitutional amendment would, subject to voter approval, increase the homeowners' exemption from \$7,000 to \$20,000 and eliminate the constitutional connection between the renters' credit and homeowners' exemption.

ANALYSIS:

Current Law:

Article XIII, Section 3(k) of the California Constitution exempts the first \$7,000 of assessed value of an owner-occupied principal place of residence from property tax. This exemption is commonly referred to as the "homeowners' exemption." The Constitution gives the Legislature the authority to increase the amount of the homeowners' exemption, provided that:

1. Any increase is funded by increasing the "rate of State taxes" in an amount sufficient to reimburse local governments for property tax revenue loss¹ and
2. Benefits to renters, which under current practice is granted through the renters' tax credit, are increased by a comparable amount.

Proposed Law:

This measure would increase the minimum amount of the homeowners' exemption specified in the constitution from \$7,000 to \$20,000. In addition, it would delete the provision that requires the renters' credit to be adjusted any time the homeowners' exemption is increased. By ending the constitutional connection between the renters' credit and the homeowners' exemption, the Legislature would be able to increase the amount of the homeowners' exemption at any time as long as the state reimbursed local governments for the revenue loss.

¹ Article XIII, Section 25 requires that the state reimburse local government for the property tax revenue loss resulting from the homeowners' exemption.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Background:

Over the years, numerous proposals have been before the Legislature to increase the amount of homeowners' exemption. Those proposals used various methods, including increasing the amount of the exemption by a flat amount, indexing the exemption for inflation, and varying the exemption according to the year of purchase.

Previous legislative attempts are summarized in the table below.

Bill Number	Legislative Session	Author	Type
AB 2060	1997-98	Granlund	Increase to \$20,000
ACA 43	1997-98	Granlund	Increase to \$20,000
ACA 5	1991-92	Elder	Variable according to assessed value
ACA 31	1991-92	Frizzelle	Index for inflation by California CPI
ACA 47	1991-92	Jones	25% exemption; no assessed value cap
ACA 3	1989-90	Elder	Variable depending on year acquired
ACA 9	1989-90	D. Brown	25% exemption; \$250,000 assessed value cap
ACA 31	1989-90	Hannigan	15% exemption; 150,000 assessed value cap
ACA 55	1989-90	Wright	Increase to \$48,000
ACA 1	1987-88	Elder	Increased to \$25,000 + indexing for inflation
ACA 25	1987-88	D. Brown	25% exemption; \$250,000 assessed value cap
AB 2141	1985-86	Khels	20% exemption; \$50,000 exemption cap
AB 2496	1985-86	Cortese	Increased in years with General Fund Reserves
AB 3086	1985-86	Elder	Variable depending on year acquired
AB 3982	1985-86	La Follette	Increase for 1 st time home buyers
ACA 49	1985-86	Elder	Variable depending on year acquired

COMMENTS:

1. **Sponsor and Purpose.** This bill is sponsored by Solano County in an effort to increase the amount of the homeowners' exemption which has been unchanged for more than 25 years.
2. **Exemption Amount Unchanged Since 1974.** The homeowners' exemption was first adopted by voters in 1968. The amount of the exemption was last increased to its current level of \$7,000 in 1974.
3. **Constitution Permits Statutory Increases In the Amount of the Exemption.** The \$7,000 amount specified in the Constitution sets forth the *minimum* amount of the exemption. The Constitution provides a mechanism to increase the amount of the homeowners' exemption without requiring a constitutional amendment. However, any exercise of the Legislative authority to increase the homeowners' exemption requires that the renters' credit be increased by an equivalent amount, making increases more costly to fund.

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4. **Constitutional Parity Provision.** If approved by voters, this measure would sever the constitutional connection between the homeowners' exemption and the renters' credit, allowing changes to either program to be made independently of the other.

5. **Renters' Credit Suspended But Not The Homeowners' Exemption.**

credit was suspended from the 1993 through the 1997 income tax years in accordance with budget agreements. It was restored last year by AB 2797, a budget trailer bill. It could be argued that, given the fact that homeowners continued to receive the homeowners' exemption while the renters' credit was suspended, the State had effectively abandoned the constitutional parity provision for a five year period and this bill would simply permanently disconnect the two provisions.

COST ESTIMATE:

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE:

Background, Methodology, and Assumptions

Existing property tax law provides for a homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The exemption amount is reduced to \$5,600 on claims that are filed late. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting county property tax loss.

Over the course of the last four years, the state reimbursement to the counties to cover homeowners' exemption has changed very little:

1997-98	\$383,236,000
1996-97	\$383,238,000
1995-96	\$388,824,000
1994-95	\$378,816,000

The total exempt value of the homeowners' exemption amounted to \$35,903,000,000 on 5,138,000 claims in 1997-98. The average value of the homeowners' exemption in 1997-98 was \$6,988, indicating that only a tiny percentage of all such claims do not currently receive the maximum \$7,000.

The percentage of homeowners' exemption properties that would not receive the maximum exemption should not change appreciably if the amount of the exemption was increased to \$20,000. This means that, under this bill, each year the total homeowners' exemption subvention is estimated to be:

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$$\$383,200,000 \times (\$20,000/\$7000) = \$1,095,000,000$$

The annual increase in the subvention would be:

$$\$1,095,000,000 - \$383,200,000 = \$711,800,000$$

Revenue Summary

This bill would increase the state reimbursement for the homeowners' exemptions by \$711.8 million annually.

Qualifying Remarks

This estimate assumes that the amount of the partial homeowners' exemption will be similarly increased from "the lesser of \$5,600 or 80 percent of the full value of the dwelling" to "the lesser of \$16,000 or 80 percent of the full value of the dwelling."

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